Bell Canada 1975

Annual Report

Corporate Information

Bell Canada
1050 Beaver Hall Hill
Montreal, Quebec
H3C 3G4

1976 Annual Meeting
The Annual and Special General Meeting of the Shareholders will take place at 2.00 p.m., Tuesday, April 20, 1976 in the Canadian Room, Royal York Hotel, Front Street West, Toronto, Ontario

Listing of Stock
Canada
  Montreal, Toronto, Vancouver Stock Exchanges
Belgium
  Brussels Stock Exchange
England
  London Stock Exchange
France
  Paris Stock Exchange
Germany
  Frankfurt am Main, Dusseldorf Stock Exchanges
Switzerland
  Zurich, Basle, Geneva* Stock Exchanges
The Netherlands
  Amsterdam Stock Exchange

Transfer Offices for Stock
Company Offices—
  1050 Beaver Hall Hill
  Montreal
  10 King St. East
  Toronto
The Royal Trust Company
  St. John's, Nfld.; Halifax; Charlottetown; Saint John, N.B.; Winnipeg; Regina; Calgary; Vancouver
Morgan Guaranty Trust
  Company of New York,
  New York, N.Y.

Registrar for Stock
Montreal Trust Company
  Montreal; Toronto; St. John's, Nfld.; Halifax; Charlottetown; Saint John, N.B.; Winnipeg; Regina; Calgary; Vancouver
Morgan Guaranty Trust
  Company of New York,
  New York, N.Y.

*Listings on Basle and Geneva stock exchanges became effective January 23, 1976.

Trustee for Bonds
The Royal Trust Company
  Montreal

Transfer Offices for Bonds
The Royal Trust Company
  Montreal; Toronto; St. John's, Nfld.; Halifax; Charlottetown; Saint John, N.B.; Winnipeg; Regina; Calgary; Vancouver

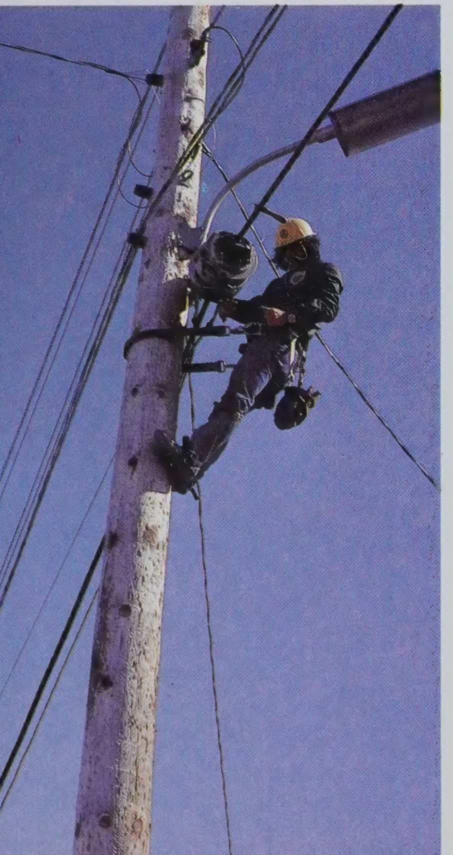
An Annual Statistical Report, intended for those desiring further data on our operations, is in preparation and will be available to shareholders upon a written request to:
  The Treasurer
  Bell Canada
  1050 Beaver Hall Hill
  Montreal, Quebec,
  H3C 3G4.

Bell Canada, part of
Trans-Canada Telephone System

Bell Canada
Ninety-sixth Annual Report
Year ended December 31, 1975

Sur demande, le secrétaire vous fera volontiers parvenir un exemplaire français du rapport annuel.

Telephone people . . . whose skills and efforts provide Canadians with the world's best telecommunication services.



Bell Canada
Consolidated

Financial Highlights

	1975	1974	% Increase
Revenues (thousands of dollars)			
operating revenues	**$1,967,401**	$1,693,380	16.2
sales revenues	**1,020,715**	972,226	5.0
total	**2,988,116**	2,665,606	12.1
Income before extraordinary items (thousands of dollars)	**266,784**	224,436	18.9
per common share	**6.20**	5.57	11.3
assuming full conversion of convertible preferred shares and exercise of warrants	**5.87**	5.34	9.9
Dividends per common share	**3.44**	3.12	10.3
Equity per common share (at December 31)	**53.89**	50.10	7.6

Contents

Directors

W. M. Vacy Ash, O.C.
Toronto, Ontario
Company Director
Elected March 10, 1966
Chairman of the Pension Fund Policy Committee

Marcel Bélanger, O.C., C.A.
Quebec, Quebec
Partner, Bélanger, Dallaire, Gagnon & Associés
Elected March 20, 1969
Chairman of the Audit Committee and a member of the Management Resources and Compensation Committee

G. Allan Burton, D.S.O., E.D.
Milton, Ontario
Chairman of the Board and Chief Executive Officer, Simpsons, Limited
Appointed May 23, 1974
A member of the Management Resources and Compensation Committee

A. Jean de Grandpré, Q.C.
Outremont, Quebec
President, Bell Canada
Appointed July 26, 1972
A member of the Executive, the Audit and the Social and Environmental Affairs Committees

J. Douglas Gibson, O.B.E.
Toronto, Ontario
Chairman of the Board, The Consumers Gas Company and Economic Consultant
Elected March 25, 1970
A member of the Management Resources and Compensation Committee and of the Pension Fund Policy Committee

H. Clifford Hatch
Windsor, Ontario
President and Chief Executive Officer, Hiram Walker-Gooderham & Worts Limited
Elected April 9, 1974
A member of the Audit Committee

Helen S. Hogg, O.C.
Richmond Hill, Ontario
Research Professor of Astronomy, University of Toronto
Elected March 21, 1968
Chairman of the Social and Environmental Affairs Committee

James W. Kerr
Toronto, Ontario
Chairman and Chief Executive Officer, TransCanada PipeLines Limited
Appointed August 26, 1970
A member of the Management Resources and Compensation Committee

Herbert H. Lank
Westmount, Quebec
Company Director
Appointed April 27, 1960
A member of the Executive Committee and Chairman of the Management Resources and Compensation Committee

John C. Lobb
Ligonier, Pennsylvania
Chairman of the Board and Chief Executive Officer, Northern Electric Company, Limited
Appointed October 24, 1973
A member of the Executive Committee

Donald McInnes, Q.C.
Halifax, Nova Scotia
Senior Partner, McInnes, Cooper & Robertson
Elected March 16, 1967
A member of the Pension Fund Policy Committee

E. Neil McKelvey, Q.C.
Saint John, New Brunswick
Partner, McKelvey, Macaulay, Machum & Fairweather
Elected April 3, 1973
A member of the Audit Committee

John H. Moore
Lambeth, Ontario
President, Brascan Limited
Elected March 10, 1966
A member of the Executive Committee and of the Audit Committee

Gérard Plourde
Montreal, Quebec
Chairman of the Board and Chief Executive Officer, U A P Inc.
Appointed January 1, 1973
A member of the Executive Committee

Louis Rasminsky, C.C., C.B.E.
Ottawa, Ontario
Chairman of the Board of Governors, International Development Research Centre
Appointed September 26, 1973
A member of the Pension Fund Policy Committee

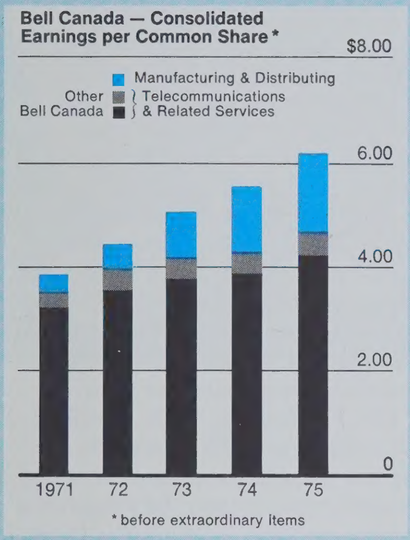
The Hon. John P. Robarts, P.C., C.C., Q.C.
Toronto, Ontario
Member of Stikeman, Elliott, Robarts & Bowman
Appointed June 23, 1971
A member of the Pension Fund Policy Committee

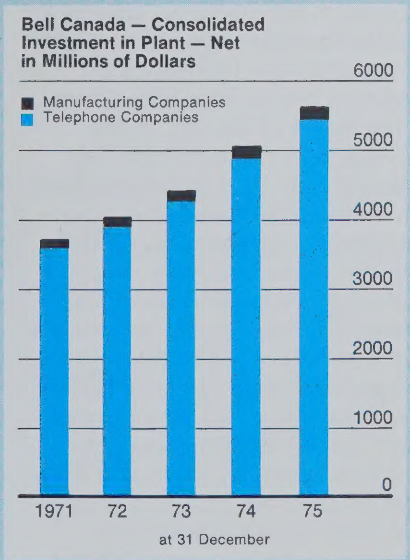
H. Rocke Robertson, C.C., M.D.
Ottawa, Ontario
Company Director
Elected July 8, 1965
A member of the Executive Committee and of the Social and Environmental Affairs Committee

Lucien G. Rolland
Westmount, Quebec
President and General Manager, Rolland Paper Company, Limited
Elected July 8, 1965
A member of the Pension Fund Policy Committee

Robert C. Scrivener
Montreal, Quebec
Chairman of the Board and Chief Executive Officer, Bell Canada
Appointed November 1, 1967
Chairman of the Executive Committee and a member of the Audit and of the Social and Environmental Affairs Committees

Louise Brais Vaillancourt
Outremont, Quebec
President, La Corporation de l'Hôpital Marie Enfant
Appointed January 1, 1975
A member of the Social and Environmental Affairs Committee





Report of the Directors

Bell Canada and its affiliated companies are very important to Canadians. They provide most of the telecommunication services and equipment in Canada. They provide jobs for 79,000 people and Canadians have invested more of their savings in them than in any other publicly-held company.

Bell Canada provides voice, data and television transmission and other telecommunication services and facilities in Ontario, Quebec and parts of the Northwest Territories. Its telephone subsidiaries provide telecommunication services in parts of Ontario and Quebec and most of the telecommunication services in New Brunswick, Newfoundland, Nova Scotia and Prince Edward Island.

Northern Telecom Limited, the new name of Northern Electric Company, Limited, effective March 1, 1976, is the major telecommunication equipment manufacturer in Canada and one of the largest in the world. It is established in international markets and continues to expand as a Canadian-owned multinational company. Bell-Northern Research Ltd. is the largest, privately-owned research and development organization in Canada.

To provide a clear understanding of the total enterprise and its major corporate components, the Report of the Directors is organized in four main sections.

The first section, Consolidated Results, provides a brief, mainly financial overview of the Bell Canada Group of companies on a consolidated basis. The second section, titled Bell Canada, reports the performance and activities of the parent company — the largest entity in the Group. This is followed by a section describing the major telephone operating subsidiaries. The fourth major section, Manufacture and Research, covers Northern Telecom Limited and Bell-Northern Research Ltd. (BNR).

The consolidated financial statements are found beginning on page 13. The non-consolidated summarized statements begin on page 25.

Consolidated Results

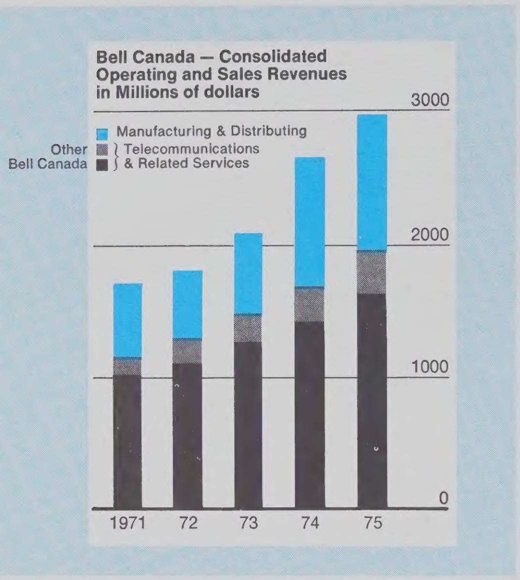
Canada's business climate throughout 1975 was characterized by an uncertain economy, continuing inflation and high capital costs.

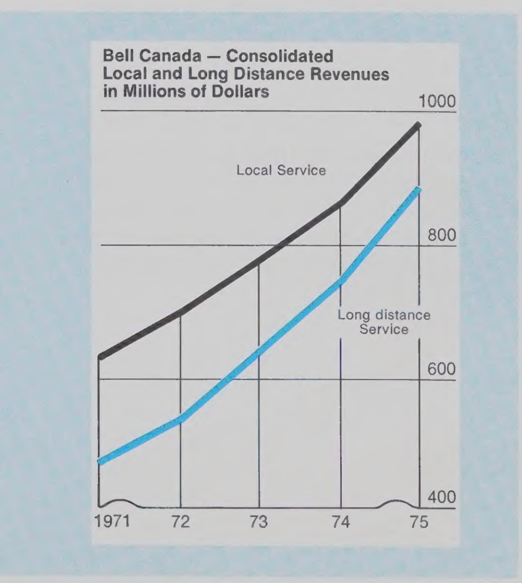
In this difficult year, Bell Canada's consolidated earnings per share, revenues and net income showed improvement. Consolidated earnings of $266.8 million, before extraordinary items, were $6.20 per common share compared to $5.57 per common share in 1974. Thirty-eight cents of the 63 cents increase was contributed by Bell Canada and its telephone operating subsidiaries, with 25 cents coming from Northern Telecom Limited and its subsidiaries.

Consolidated earnings do not include extraordinary items amounting to a net gain of $50.6 million realized mainly through the sale, by Bell Canada in October 1975, of 5,250,000 common shares of Northern Electric (now Northern Telecom Limited).

Northern Telecom and its subsidiaries' contribution to consolidated income, before extraordinary items, of $1.53 was an increase of 25 cents over 1974. The improvement was mainly due to that company's ability, during a difficult period in national and international telecommunication markets, to improve sales in the face of severe competition and to exercise tight control over its costs.

The fully-diluted consolidated earnings per common share of Bell Canada, taking into account conversion of convertible preferred shares and exercise of warrants to purchase common shares, before extraordinary items, were $5.87 in 1975 compared to $5.34 in 1974.





For the fourth consecutive year, dividends were increased, consistent with the Company's policy of enabling shareholders to maintain the integrity of their investment and help them offset the effects of inflation, as well as to continue to make the Company attractive to equity investors. Dividends declared in 1975 on common shares, at an annual rate, were $3.44, compared to $3.12 the previous year, a 10 per cent increase.

The Company made application in February 1976 to the Anti-Inflation Board for permission to increase the April 15, 1976 declared dividend of 86 cents to 94 cents per common share, an 8 cent improvement, in order to maintain the value of the investment and to help attract new funds required to complete essential capital expenditures in 1976 and 1977 of some $1 billion each year.

These substantial expenditures are not entirely within the Company's discretion but must be incurred to satisfy demand for service resulting from new housing, industrial expansion and increasing social needs.

The application was not approved but may be reviewed by the Board at a later date. In view of the decision, the Company is re-examining its ability to finance the capital expenditure program.

Bell Canada intends to return to its established dividend policy at the earliest possible date.

Consolidated shareholders' equity at 1975 year-end was $53.89 per common share, compared to $50.10 the previous year.

Consolidated revenues, including operating revenues and sales by manufacturing and distributing companies, rose from $2.7 billion in 1974 to $3.0 billion in 1975.

Improved telephone operating revenues were largely the result of increases in local and long distance service usage, helped, in some measure, by rate increases. Consolidated local and long distance revenues rose 16.3 per cent in 1975, to $1.9 billion.

Sales revenues from manufacturing and distributing reached $1.0 billion, up 5.0 per cent over 1974, as Northern Telecom achieved a new record level of sales in 1975.

While revenues improved 12.1 per cent, consolidated operating expenses and the cost of sales and expenses increased 11.0 per cent. Higher bargained wage costs, increased prices for materials and supplies, as well as higher taxes, were major factors in the $226.7 million expense increase.

Each year, customer demand increases. Total telephones in service throughout Bell Canada and affiliated telephone companies' operating territories increased by 423,000 in 1975 to 9.0 million; long distance messages, 521.7 million in 1974, climbed to 574.7 million in 1975. These increases are examples of new demand that annually challenges the telephone companies, and it is a measure of their ability and efficiency that these needs are met.

With each year of high inflation, the cost of providing customer service increases — despite impressive productivity improvements. As a result, applications by telephone companies to the regulatory authorities to authorize increases in rates inevitably become more numerous and frequent.

One remedy under consideration by both the telephone companies and the regulators is a rate adjustment formula, which would permit the companies to adjust rates in response to non-controllable increases or decreases in costs. This procedure, which would be of benefit to the public, regulators and companies alike, would only be employed as an interim measure between full scale rate hearings — in essence, a condensed, but more effective, method of regulatory review and analysis.

More than any factor, the results achieved in 1975 were due to the continued high level of performance of the employees of all members of the Bell Canada Group. Over the years, it has been the skills and efforts of these employees, coupled with a pride in their vocation and their acceptance of their responsibilities, which has provided Canadians with the world's most advanced telecommunication services.

The above overview covered, in brief, the consolidated results of the Bell Canada Group of companies. The next section focuses attention upon Bell Canada, the major corporate entity within the Group.

Bell Canada

The Company's non-consolidated earnings per common share, before extraordinary item, amounted to $4.83 in 1975, up 31 cents over 1974. Included in these earnings were dividends from investments in subsidiaries, which contributed 64 cents in 1974 and 65 cents in 1975 per Bell Canada common share. Total 1975 income, before extraordinary item, was $213.1 million, compared to $185.3 million in 1974. Although rate increases for services helped to improve earnings, the improvement was partially offset by the 10 per cent Federal surtax on non-manufacturing profits, effective from May 1, 1974 to April 30, 1975 and by higher costs for capital, labour, material and equipment.

Fully diluted, Bell's earnings per common share, before extraordinary item, amounted to $4.68 in 1975 compared to $4.40 in 1974.

Operating revenues for the year were $1.7 billion, up 15.7 per cent over 1974. The improvement reflected a $103.8 million increase in local service revenues and a $115.9 million increase in revenues from long distance service.

The revenue amounts reflected record levels in the number of subscribers served and in local and long distance calls. At year-end, the Company had more than 7.8 million telephones in service. Local calls handled climbed to 10.6 billion in 1975. Long distance calls increased 9.4 per cent, to 490.6 million for the year.

Operating expenses, at $1.2 billion, rose 16.3 per cent in 1975, due mainly to increases in employment costs and increased costs for most of the services purchased by the Company.

The non-consolidated rate of return on average total capital, before extraordinary item, was 8.46 per cent in 1975, compared to 8.04 per cent in 1974. The rate of return on average common equity, before extraordinary item, was 9.97 per cent in 1975 and 9.63 per cent the previous year.

Bell Canada's permitted rate of return on total average capital, found to be just and reasonable by the Canadian Transport Commission in August 1974, is between 8.6 and 9.1 per cent including, as a component, a rate of return on common equity of 11 to 12 per cent.

Regulation

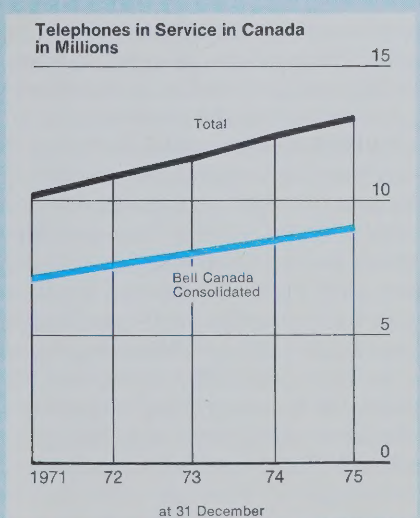
Bell Canada and its major affiliated telephone companies — The New Brunswick Telephone Company, Limited, Newfoundland Telephone Company Limited, Northern Telephone Limited, Télébec Ltée, Telontario Incorporated and Maritime Telegraph and Telephone Company, Limited — all appeared before the regulatory authorities during the last year and were granted some measure of rate relief.

All faced essentially the same basic problem: a rapidly narrowing margin between revenues received for telephone service and the escalating costs of providing the service.

A prolonged, unrelieved cost/price squeeze leads inevitably to service impairment. In May 1975 Bell Canada filed a two-stage rate application with the Canadian Transport Commission (CTC) seeking "urgent interim" relief, effective August 1, with the second stage change to become effective October 1.

In July, after a public hearing, the CTC granted interim rate relief amounting to $14 million for 1975 — half the amount requested — and deferred the remainder for further consideration during later public hearings. As a foreseen consequence, a $33 million reduction in the planned capital program for 1975 became necessary and some impairment of service resulted. In particular, the Company's capacity to respond rapidly to requests for new installations deteriorated and some subscribers, unfortunately, suffered delays in obtaining service.

In their second decision, announced in December 1975, with effect January 15, 1976, the CTC confirmed the interim judgment and awarded the amount previously



Dataroute, Canada's data transmission network for business.

Phone Centre . . . a new convenience for telephone customers.

deferred as well as that requested in phase two of the application. The total of the two awards, it is calculated, will produce additional annualized revenues estimated at $110.3 million in 1976.

Capital Expenditures
Bell Canada spent more than $809.6 million in 1975 to meet customer service needs, an increase of 3.4 per cent over 1974.

By far the greatest amount of the capital budget, $587.5 million, or 72.6 per cent, was spent to meet anticipated growth in public demand. Equipment must be engineered, manufactured, tested and installed in advance of when it is needed, if we are to continue to provide the service on demand that customers want. The capital required must be raised, and spent, before the investment produces any revenue.

More than 370,000 telephones were added to the network in 1975. In achieving this growth, 2.0 million telephones were connected and 1.6 million disconnected. About 12.5 per cent, or $101.2 million of the capital budget, was spent to relocate equipment for residential and business customers who moved during the year. Replacement of damaged or outworn equipment accounted for $35.2 million, or 4.3 per cent.

Another $85.7 million, or 10.6 per cent of the total budget, was spent to modernize service, improve the physical plant and to achieve new productivity improvements. The industry's impressive productivity gains arise from modernization and can only continue to keep telephone prices down if new technology is put to use as early as possible.

Through the Computer Communications Group, a specialized organization within the Company, Bell Canada provides equipment and services to meet the needs of data communication customers. Superior electronic computer communications are essential if Canada is to be competitive and productive in the years ahead.

Major emphasis during the year was on the development of Datapac, which represents an entirely new approach to data communications. The Datapac network will be a universal network for data, much as the telephone network is for voice. It will use the technology of packet-switching, an innovative method of packaging data for transmission between computer terminals and computer data bases.

Through worldwide discussions with data users, manufacturers, other carriers, government authorities and standards organizations, a basic technical specification for access to universal data networks, on a national and international basis, was initiated. Called Standard Network Access Protocol, this standard is one of the keys to the future development of universally-available, worldwide, shared data networks.

By mid-1976, commercial Datapac service will begin, with initial exchanges in Montreal, Ottawa, Toronto and Calgary. Commercial implementation will further extend worldwide recognition of Bell Canada as a leader in the field of computer communications.

During 1975, The Dataroute, our national digital data, private line transmission network, continued to expand to meet user needs. There are now 30 Dataroute serving areas across Canada.

Two major technical milestones in the transmission of information, in digital form, over the telecommunication networks, occurred in 1975. The LD-4 high capacity, underground digital cable system was put in service between Ottawa and Montreal and extended to Toronto to carry long distance calls, video signals and digital data. This is another illustration of Canadian leadership in high technology telecommunications.

In another technological first, Bell Canada put into commercial operation its Double DUV (Data-Under-Voice) microwave transmission system between Montreal and Toronto. The system, using a portion of the microwave spectrum not used for voice, transmits two identical streams of data, then selects the best signals from each at the receiving end to ensure high accuracy and reliability. Early in 1976, this system will be extended from Quebec to Calgary and, by mid-summer, from Calgary to Edmonton and from Quebec eastwards to Halifax. It is an example of modernizing and improving the efficiency of existing structures and installations using new technology. These and other new developments

are the direct result of the closely coordinated and integrated activities of Bell-Northern Research, Northern Telecom, Bell Canada and Trans-Canada Telephone System member companies.

Finance

In 1975, funds generated from operations, after payment of dividends and matured long term debt, were $419.1 million or 53.9 per cent of net capital expenditures of $777.4 million. Debt and equity financing amounting to $338.3 million and the sale of Northern Telecom common shares financed the remainder and provided additional working capital.

In October 1975 the Company sold 5,250,000 Northern Electric (now Northern Telecom) common shares together with 2,625,000 warrants, expiring on June 30, 1977, to purchase the same number of Bell Canada common shares, at $46.00, to investors in Canada, the United States and Europe. Net proceeds to Bell Canada from the sale of the Northern Telecom shares amounted to $118.1 million.

The success of the issue benefited both companies. Proceeds of the sale strengthened Bell Canada's capital structure and provided an attractive opportunity for securing new equity capital in 1977. The role of Northern Telecom as a reliable source of quality telecommunication products to Bell Canada remains unchanged. Integration of telecommunication planning, research, manufacture and operations continues to be the cornerstone of Canadian telecommunication service and progress.

The broader public ownership of Northern Telecom should assist that company to expand its sales and take advantage of growth opportunities in world markets. In providing Northern Telecom with increased flexibility for growth, opportunities for development and expansion are enhanced, to the benefit of all members of the Bell Canada Group.

Also of particular interest to shareholders was the listing, in April, of Bell Canada's common shares on the London, Brussels, Paris, Frankfurt am Main, Dusseldorf and Zurich stock exchanges. The Company's shares have been listed on the Amsterdam Stock Exchange since 1955, and were listed on the Basle and Geneva, Switzerland exchanges in January 1976.

The multiple listing provides Bell Canada with a presence in the major European financial centres, enabling participation in international capital markets, which are becoming increasingly important as sources of investment funds.

Bell Canada's presence in Europe is important because Canada's needs for capital in the next five years will be very large by present day standards.

The overseas listings should enhance our ability to raise capital. By broadening knowledge of the Company in these countries, the listings facilitate wider investor and business interest in Bell Canada and in the capabilities of Northern Telecom and BNR.

A third undertaking of special interest to shareholders was the introduction, effective July 15, 1975, of the Bell Canada Shareholder Dividend Reinvestment Plan.

Under the terms of the Plan, participating shareholders may have their dividends reinvested automatically in additional Bell Canada common shares, purchased by the National Trust Company, Limited on the open market. Owners of the Company's preferred stock and bonds are able to participate and assign their interest and dividends to the purchase of common shares. In addition, participants may also purchase additional shares with optional cash payments of up to $3,000 per quarter.

The only charge to participants is the brokerage commissions, which are borne proportionately. Bell Canada administers the Plan and bears all administration costs. At year-end, 12,565 shareholders had enrolled in the plan; 32,551 common shares were purchased and over $1.4 million was reinvested in Bell Canada shares.

Employee Relations

New collective agreements between Bell Canada and the Canadian Telephone Employees' Association, retroactive to December 1975, were announced in early January 1976. The one-year agreements affect some 13,500 clerical and communication sales employees.

The clerical and associated employees' agreement provides for an adjustment in top rates of 8.9 per

The new Vucom 3, *a versatile visual display data communication terminal.*

cent and some reduction in hours of work; the communication sales agreement provides for wage increases of 9.8 per cent.

No agreement was reached with the CTEA regarding the Craft and Services bargaining unit, comprised of some 12,500 employees. The Canada Labour Relations Board had advised the parties that a representation vote was to be held in early 1976 as a result of an application for certification filed by the Communications Workers of Canada. It is expected that the matter of certification will be resolved in the first half of 1976.

Community Relations

Bell Canada is involved in many ways in the communities it serves and has long supported programs that help improve the quality of community life.

Each year, the Company and its employees contribute to the success of hundreds of diverse activities, ranging from large annual united appeal drives to a myriad of social, cultural, educational, health, sports and community betterment activities at the local level.

In 1975, the Company contributed more than $910,000 to a variety of non-profit organizations dedicated to community social and cultural needs. Of this total, 54.6 per cent went to health, welfare, united appeals and hospitals; 19.5 per cent to education and 25.9 per cent to civic, cultural and other organizations.

Employees are also encouraged to become involved in community activities. In 1975, they donated $585,000 to charitable causes through a Company-administered payroll deduction plan, in addition to giving many hours of their personal time to worthwhile community endeavours.

Another item of corporate social concern is the protection of the physical environment. Environmental problems such as solid waste disposal and air, visual and noise pollution are continuing considerations.

For example, the use of paper with recycled content is encouraged to help reduce the solid waste affecting land and water. Paper waste is sold for recycling whenever possible.

Ninety-nine per cent of Company buildings are heated by electricity, natural gas or low-sulphur light-oil. The remaining buildings, now using heavy-oil, are being converted to reduce sulphur dioxide emissions into the atmosphere. A program to reduce energy consumption by lowering the temperature in Company buildings during the winter months conserves fuel, saves money and reduces air pollution.

Bell Canada has been placing cable underground in urban areas for decades, which helps reduce visual pollution. The current trend in high density intercity transmission is via buried coaxial cable, which will reduce the number of new microwave towers. And, for years, Company buildings have been designed to blend with surrounding building styles so as to complement the neighbourhoods in which they are located.

Senior Executive Changes

It is with deep regret that we record the sudden death, in May 1975, of René Fortier, 47, Executive Vice-President, after more than two decades of service with the Company. Mr. Fortier, who joined Bell Canada in 1953 as a transmission engineer, held various management positions, including those of Chief Engineer, Toronto Area and Vice-President, Montreal Area, before being appointed Executive Vice-President, Quebec Region in 1973.

Z. H. Krupski, Executive Vice-President, Computer Communications and Network Services, retired after 27 years of valued service. Jean-Paul Gagnon, former Vice-President, Montreal Area, resigned in order to accept a senior position with Northern Telecom.

Promotions within and to the Officer rank announced in 1975 were: J. V. Raymond Cyr, Vice-President, Montreal Area, was appointed Executive Vice-President, Quebec Region; Orland Tropea, Vice-President, Regulatory Matters, was appointed Executive Vice-President, Administration; and J. Robert Brulé, John H. Farrell and Andrew M. McMahon were appointed Vice-Presidents.

There were no changes in the membership of the Board of Directors during 1975.

As it was for Bell Canada, 1975 was especially challenging for the telephone operating affiliates. Inflation, high material, labour and capital costs made it very difficult for them to carry out the commitment to provide excellent, low cost service. Despite the problems, more customers received better telephone service during the year.

The New Brunswick Telephone Company, Limited

NBTel's consolidated net income in 1975 amounted to $9.7 million, or $1.68 per common share compared to $1.44 per common share in 1974. Increased customer use of telecommunication service, plus additional income from rate increases granted in July, resulted in a 20.3 per cent increase in consolidated operating revenues to $76.5 million from $63.6 million the previous year. Other income totalled $2.0 million, compared to $1.8 million in 1974.

Total consolidated expenses in 1975 rose 18.7 per cent to $68.8 million, compared to $58.0 million last year.

Inflation and continuing high costs made it necessary for the company in November 1975 to make its second application in one year to the New Brunswick Board of Commissioners of Public Utilities for increases in rates. In its application, NBTel stated, in order to meet forecast service demand, that capital expenditures of about $270 million would be required over the next four years.

In order to maintain and improve the attractiveness of the company's equity, NBTel requested that it be allowed to earn at a rate of between 15 and 16 per cent on its common equity capital to permit the company to compete in the financial markets.

The Board in its decision handed down in February 1976 granted the company permission to reach a rate of earnings of 15 per cent and further authorized an immediate increase in rates which would produce a 13 per cent rate of earnings on total equity capital.

During 1975, NBTel spent $42.0 million to improve and expand facilities to better serve customers. A major improvement was the purchase and installation of a new SP-1 electronic switching facility in Saint John, N.B.

Total telephones in service rose to 321,000 at year-end, up 6.8 per cent over 1974.

Newfoundland Telephone Company Limited

Earnings per common share of Newfoundland Telephone in 1975 were 85 cents, compared to 87 cents in 1974. Net income amounted to $5.2 million compared to $4.8 million in 1974.

As a result of income tax reassessments for the years 1971 to 1974, net income for 1974 has been increased by approximately $256,000. These re-assessments resulted from claiming, for income tax purposes, certain additional expenditures in excess of those included in operating expenses for the respective years. Revenues for 1975 grew by 21.4 per cent to $43.1 million, while total expenses increased 22.8 per cent to $38.5 million. Other income remained unchanged at $0.6 million.

Twice in 1975, Newfoundland Telephone applied to the Board of Commissioners of Public Utilities, Province of Newfoundland, to increase rates. The additional revenues generated by the rate judgments, together with stringent expense control, should allow the company to undertake the level of capital expenditures required to meet customer service needs in 1976.

Newfoundland Telephone spent $27.3 million in 1975 improving and extending service. About $2 million was spent to complete the first phase of the cross-island microwave system to ensure the company's capability to handle rapidly expanding long distance, broadcast and data markets.

Other improvements included a new microwave route which brought some of the more remote sections of Labrador into the telecommunication mainstream. With the addition of a $1.1 million electronic switching office to the exchange area of Witless Bay, the company became a 100 per cent dial operation. In St. John's, work proceeded on another new electronic switching office, scheduled for service early in 1976.

These projects and numerous extensions to plant throughout the Province are designed to provide Newfoundlanders with the very best in telecommunications while providing important future sources of revenues to the company. Having taken positive steps in 1975 to curtail expenses and reprice services, Newfoundland Telephone is confident that it has provided a sound base to meet the growing and expanding telecommunication needs of its customers.

Northern Telephone Limited

In 1975, Northern Telephone consolidated net income amounted to $1.6 million or 40 cents per common share compared to 45 cents per common share in 1974.

Consolidated operating revenues increased 14.5 per cent to $23.2 million from $20.3 million in 1974, reflecting increases in local and long distance service. Total telephones in service grew 5.1 per cent, to 129,000. Total consolidated expenses at $21.6 million, were up $3.1 million over the previous year.

The company's September 1974 application for increased rates to the Ontario Telephone Service Commission produced three interim rulings in 1975, with a final judgment expected in 1976. The 1975 awards produced revenues less than those required, with effect much too late in the year. The results were certain curtailments in the construction program and delays in providing some customers with service. Inadequate results of regulatory action are unacceptable to customers and the company alike. The public wants dependable service and is prepared to pay a few cents more a day for it.

Northern Telephone's wholly-owned subsidiary, Northern Quebec Telephone Inc., was granted a 14 per cent increase, without undue delay, on its application to the Quebec Public Service Board.

Northern Quebec Telephone experienced a 13-week labour dispute which resulted in some delay in their construction program, affecting, in particular, the upgrading of rural service.

In February 1976 Northern Telephone Limited shareholders approved the sale of the common shares of Northern Quebec Telephone to Télébec Ltée. This action is intended to consolidate the operations of these companies in Quebec. Regulatory and other required approvals are being sought.

Maritime Telegraph and Telephone Company, Limited
(Bell Canada owns 51.7 per cent of the common shares of MT&T. See note 1, page 18 regarding restricted voting rights.)

A slow-down in many sectors of the economy, continued escalation of material, labour and capital costs, plus a nine-week work stoppage by telephone operators and craftsmen, characterized MT&T's operating environment in 1975. Yet, despite these difficulties, the company's earnings and revenues improved.

Consolidated net income in 1975 amounted to $10.6 million, or $1.89 per common share, compared to $8.3 million, or $1.75 per common share in 1974. Buoyed by general rate increases, resulting from a 1974 decision, which added about 10 per cent to revenues, MT&T's total consolidated revenues in 1975 increased to $100.9 million, up 24.2 per cent from $81.2 million the previous year. Other income, including extraordinary item in 1974, increased by 54.5 per cent to $2.1 million in 1975.

The increase in revenues reflected continued growth in local and long distance calling. Local calls in 1975 totalled 1.1 billion, up 13.7 per cent over 1974 and long distance calls increased to 33.7 million, an 11.5 per cent improvement over the previous year.

While revenues improved, the costs of providing service continued their upward spiral. Total consolidated expenses amounted to $92.4 million, up 24.4 per cent over 1974.

MT&T's consolidated capital expenditures in 1975 totalled $72.0 million, of which $43.5 million was expended to provide facilities to meet the growth in the number of telephones added to the network, $18.1 million for the general service improvement program throughout Nova Scotia and $10.4 million for changes and alterations in the basic network and facility replacement requirements.

For 1976, new telephone rates approved by the Board of Commissioners of Public Utilities for Nova Scotia for implementation in late 1975 are expected to improve general revenues by an estimated 14.3 per cent beyond normal anticipated revenue increases.

Manufacture and Research
The ability to manage telecommunication technology is the great strength of the Bell Canada Group of companies and one of its most important assets for the future. The integration of planning, research, manufacture, marketing and operations has provided Canadians with superior telecommunication services and Canada with a position of leadership in world telecommunications.

Northern Telecom Limited
(As stated earlier, a change in the corporate name from Northern Electric Company, Limited to Northern Telecom Limited came into effect March 1, 1976. The new name better describes the types of products produced by the company and the worldwide industry it serves.)

For the third year in succession, Northern Telecom achieved record consolidated sales and earnings. For the first time, annual sales passed the one billion dollar mark.

Consolidated earnings per share, after extraordinary item, were $2.55, compared to $2.05 in 1974. Consolidated sales of the company and its subsidiaries reached $1.0 billion, an increase of $47.7 million over 1974. Consolidated net income increased 25.6 per cent, to $67.5 million in 1975 from $53.8 million in 1974.

These results were achieved in a year marked by adverse world economic conditions that depressed Northern Telecom markets and at a time when financial problems and labour difficulties were experienced by a number of major customers.

Despite these difficulties, demand for voice and data service continues to grow. In 1975, Northern Telecom added five new factories in Canada — two in Calgary, one each in Regina, Winnipeg and La Salle, Quebec — bringing to 24 the number of company manufacturing installations in the country.

The purchase of a sixth manufacturing facility in the United States, a 110,000 square-foot plant in Nashville, Tennessee was announced in December. It will be the U.S. centre for the manufacture of telephone sets and new electronic apparatus and the corporate headquarters of Northern Telecom Inc. (NTI), a wholly-owned subsidiary of Northern Telecom.

NTI's other U.S. manufacturing facilities are at Port Huron, Michigan; West Palm Beach, Florida; Butner, North Carolina; Concord, New Hampshire and Mountain View, California.

In December, Northern Telecom introduced the SP-1E local switching system, a new, more compact member, with greater capacity, of its SP-1 family of electronic switching systems. The SP-1 is widely used throughout North America by 23 telephone companies. The number of SP-1 lines in service or on order in Canada and the U.S. now exceeds 1.2 million.

An important new product is the SL-1 digital business communication system, one of the first private automatic branch exchanges of its kind in the market. With a notable range of capabilities, the SL-1 is being well received in North American and European markets.

On the international scene, a master agreement was obtained from the Puerto Rico Telephone Company for a substantial number of SP-1 central office switching exchanges; production of switching equipment in Turkey to meet that nation's needs was doubled; plants at Galway, Ireland and Penang, Malaysia were modestly expanded; and new subsidiaries were incorporated in England and France.

The European market is difficult to penetrate, but Northern Telecom is making progress there as well as in many other countries despite intense competition from established European telecommunication manufacturers.

Microsystems International Limited ceased production in May 1975. At a later date, Microsystems acquired the assets and assumed the liabilities of Nedco Limited. The business is now being conducted under the name of Nedco (1975) Ltd.

Bell-Northern Research Ltd. (BNR)

Bell-Northern Research, with a staff of more than 1,700, including more than 1,100 engineers, scientists and technical personnel, is one of the leading telecommunication research and development establishments in North America. Most of its activity is undertaken on behalf of its owner companies; it also provides services for other companies in the Trans-Canada Telephone System, governmental agencies and independent organizations in North America.

BNR spent $50.9 million on telecommunication and electronic research commissioned by Northern Telecom, Bell Canada and other organizations during 1975. New technology and its profitable application are the keys to future telecommunication progress.

Early in 1975, BNR Inc., a wholly-owned subsidiary, began operations in Palo Alto, California, where development projects are undertaken to increase the market potential of telephone and business communication systems. This is the first of the BNR establishments located in a foreign market.

In Canada, at the close of 1974, the acquisition from Microsystems of a building in Ottawa near BNR's main labs permitted the expansion and consolidation of research and development undertakings, providing a more efficient and effective operation, better capable of meeting future needs.

In recent years, the technologies used in the design of telecommunication systems have been developing at an accelerating rate. Telecommunication companies are faced with an array of alternatives. For BNR, this means increased worldwide interaction with the telecommunication research community to identify and evaluate areas of technological opportunity.

Part of BNR's interaction involves the presentation of scientific papers at conferences and seminars. In 1975, BNR presented 165 papers at 76 conferences . . . many to international audiences. In addition, BNR maintains liaison with many telephone companies, both in North America and other parts of the world. BNR received visitors from 64 companies from 18 countries in 1975, about one quarter of which represented telephone companies. At the international level, BNR representatives took part in 40 meetings of the International Telecommunication Union.

As one measurement, BNR activities in 1975 resulted in 34 innovations for which patents were applied and seven industrial designs were submitted for registration, underscoring the position of BNR as one of the world's leading telecommunication R&D establishments.

Today more than 50 per cent of Northern Telecom sales are derived from systems and products designed by BNR over the past five years.

Outlook

At year-end a number of factors, such as the anti-inflation program, large deficits in government budgets and an increasingly unfavourable balance of payments, created uncertainties in Canada's economic outlook. But for telecommunication people, one trend is certain: new demand for both residential and business service will continue to grow in 1976.

Over the next five years Bell Canada alone will have to invest an average of over one billion dollars each year for new facilities to meet the burgeoning needs of all those it serves.

Good telecommunications are essential to a healthy social and business climate. People want, and expect to get, dependable service when and where it is needed. Only adequate revenues and reasonable earnings and dividends will provide the large amounts of capital required to meet the needs of existing and new customers.

With the increasing strength of demand, the prospects for Northern Telecom in the coming year are favourable. Indeed, looking even beyond 1976, the outlook for the Bell Canada Group of companies is for continuing leadership, growth and achievement.

For the Board of Directors,

Chairman

President

February 27, 1976

Officers*

Chairman of the Board and Chief Executive Officer
Robert C. Scrivener

President
A. Jean de Grandpré, Q.C.

Executive Vice-Presidents
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  Eastern Region
Gordon E. Inns
  Western Region
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  Operations
Orland Tropea
  Administration

Vice-Presidents
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  Operations Development
Harry Bowler
  Finance
J. Robert Brûlé
  Operations Staff, Eastern Region
Robert W. Crowley
  Western Area
Claude Duhamel
  Administration, Eastern Region
John H. Farrell
  Regulatory Matters
Charles A. Harris
  Public and Environmental Affairs
George L. Henthorn
  Comptroller
Frederick E. Ibey
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Palle Kiar
  Montreal Area
John A. McCutcheon
  Intercorporate Policy
Andrew M. McMahon
  Computer Communications
Léonce Montambault
  Eastern Area
Lawrence J. O'Keefe
  Systems
Harry Pilkington
  Personnel
Hubert A. Roth
  Operations Performance
John E. Skinner
  Toronto Area
R. Douglas Sloane
  Central Area
John F. Stinson
  Network Services
Robert N. Washburn
  Administration, Western Region

Treasurer
Harold E. Harris

General Counsel
Guy Houle

Secretary
James T. Moore

Promotions within and to the Officer Rank
J. V. Raymond Cyr
  Executive Vice-President
Orland Tropea
  Executive Vice-President
J. Robert Brûlé
  Vice-President
John H. Farrell
  Vice-President
Andrew M. McMahon
  Vice-President

Resignations and Retirements
Jean-Paul Gagnon
  Vice-President (Montreal Area) resigned effective January 15, 1975, to accept a position with Northern Electric Company, Limited
Z. Henry Krupski
  Executive Vice-President (Computer Communications & Network Services) Retired June 6, 1975.

*as of December 31, 1975

Bell Canada
and Subsidiary Companies

Consolidated Income Statement (Note 1)

	(thousands of dollars)	
	Year 1975	Year 1974
Operating revenues		
Local service	**$ 984,733**	$ 863,459
Long distance service	**891,438**	749,972
Miscellaneous — net	**91,230**	79,949
Total Operating Revenues	**1,967,401**	1,693,380
Operating expenses	**1,389,941**	1,191,810
Net Operating Revenues	**577,460**	501,570
Sales revenues — manufacturing and distributing	**1,020,715**	972,226
Less: Cost of sales	**738,133**	720,765
Selling, general and administrative expenses	**104,684**	96,682
Other expenses	**50,820**	47,617
	893,637	865,064
Net Sales Revenues	**127,078**	107,162
Total Net Revenues	**704,538**	608,732
Other income		
Interest charged to construction	**21,194**	17,178
Miscellaneous	**13,084**	8,674
Total Other Income	**34,278**	25,852
Income before Underlisted Items	**738,816**	634,584
Interest charges		
Interest on long term debt	**184,939**	146,573
Other interest	**10,942**	12,787
Total Interest Charges	**195,881**	159,360
Income before Income Taxes, Minority Interest and Extraordinary Items	**542,935**	475,224
Income taxes	**249,838**	239,372
Income before Minority Interest and Extraordinary Items	**293,097**	235,852
Minority interest	**26,313**	11,416
Income before Extraordinary Items	**266,784**	224,436
Extraordinary items (Note 2)	**50,578**	—
Net Income	**317,362**	224,436
Dividends on preferred shares	**24,845**	17,594
Net Income Applicable to Common Shares	**$ 292,517**	$ 206,842
Earnings per Common Share* (Note 3)		
— before extraordinary items	**$6.20**	$5.57
— extraordinary items	**$1.30**	—
— after extraordinary items	**$7.50**	$5.57
Assuming full conversion of convertible preferred shares and exercise of warrants		
— before extraordinary items	**$5.87**	$5.34
— extraordinary items	**$1.12**	—
— after extraordinary items	**$6.99**	$5.34
*Based on average common shares outstanding (thousands)	**38,998**	37,128
Dividends Declared per Common Share	**$3.44**	$3.12

Bell Canada
and Subsidiary Companies

Consolidated Balance Sheet

Assets

	(thousands of dollars) December 31 1975	December 31 1974
Telecommunication Property — at cost		
Buildings, plant and equipment	**$7,069,665**	$6,257,063
Less: Accumulated depreciation	**2,017,574**	1,802,566
	5,052,091	4,454,497
Land	**51,371**	45,997
Plant under construction	**263,734**	307,788
Material and supplies	**90,529**	95,392
	5,457,725	4,903,674
Manufacturing and Distributing Property — at cost		
Buildings, plant and equipment	**331,360**	314,495
Less: Accumulated depreciation	**184,129**	175,068
	147,231	139,427
Land	**7,031**	7,100
	154,262	146,527
	5,611,987	5,050,201
Investments — at cost	**20,765**	19,870
Current Assets		
Cash and temporary cash investments — at cost (approximates market)	**217,995**	60,106
Accounts receivable — principally from customers and agents	**408,379**	339,146
Inventories (Note 4)	**229,346**	255,900
Other (principally prepaid expenses)	**51,234**	46,569
	906,954	701,721
Deferred Charges	**48,592**	48,805
Total Assets	**$6,588,298**	$5,820,597

On behalf of the Board of Directors:

Herbert H. Lank, Director
Louise B. Vaillancourt, Director

Liabilities and Shareholders' Equity

	(thousands of dollars)	
	December 31 1975	December 31 1974
Shareholders' Equity		
Capital stock (Note 5)		
Preferred shares	**$ 343,211**	$ 332,002
Common shares	**994,092**	933,471
Premium on capital stock	**441,213**	384,330
Contributed surplus	**15,290**	15,549
Retained earnings	**692,215**	537,331
	2,486,021	2,202,683
Minority Interest in Subsidiary Companies		
Preferred shares	**83,224**	44,343
Common shares	**190,423**	110,015
	273,647	154,358
Long Term Debt (Note 6)	**2,556,208**	2,382,436
Notes Payable (Note 7)	**87,194**	61,707
Current Liabilities		
Bank advances	**17,879**	18,066
Accounts payable	**263,978**	230,190
Advance billing for service	**33,316**	29,215
Dividends payable	**41,277**	33,764
Taxes accrued	**63,363**	44,035
Interest accrued	**42,814**	36,879
	462,627	392,149
Deferred Credits		
Income taxes	**704,113**	607,956
Other	**18,488**	19,308
	722,601	627,264
Commitments (Note 9)		
Total Liabilities and Shareholders' Equity	**$6,588,298**	$5,820,597

G. L. Henthorn, Vice-President & Comptroller

Consolidated Statement of Premium on Capital Stock

	(thousands of dollars)	
	Year 1975	Year 1974
Balance at beginning of year	**$384,330**	$378,385
Premium on common shares issued during the year	**56,883**	5,945
Balance at end of year	**$441,213**	$384,330

Consolidated Statement of Contributed Surplus

	(thousands of dollars)	
	Year 1975	Year 1974
Balance at beginning of year	**$ 15,549**	$ 15,883
Decrease arising on consolidation from the issues of shares by subsidiaries	**259**	334
Balance at end of year	**$ 15,290**	$ 15,549

Consolidated Statement of Retained Earnings

	(thousands of dollars)	
	Year 1975	Year 1974
Balance at beginning of year	**$537,331**	$449,043
Net income	**317,362**	224,436
Excess of par value over cost of preferred shares purchased for cancellation (Note 5)	**179**	98
	854,872	673,577
Deduct:		
Dividends — Preferred shares	**24,845**	17,594
— Common shares	**135,418**	115,940
	160,263	133,534
Expenses of issues of capital stock	**2,394**	2,712
	162,657	136,246
Balance at end of year	**$692,215**	$537,331

Consolidated Statement of Changes in Financial Position

	(thousands of dollars)	
	Year 1975	Year 1974
Source of Funds		
Operations —		
Income before extraordinary items	**$ 266,784**	$ 224,436
Items not affecting current funds —		
Depreciation	**416,824**	359,199
Deferred income taxes	**96,157**	96,445
Other — net	**13,334**	3,072
Total from operations	**793,099**	683,152
Net proceeds from the sale by Bell Canada of common shares of a subsidiary (Note 2 i)	**118,112**	—
Proceeds from long term debt	**286,353**	333,507
Proceeds from notes payable (net)	**25,487**	48,430
Proceeds from preferred shares	**123,336**	91,449
Proceeds from issues of shares by subsidiaries to minority shareholders	**48,124**	14,279
Miscellaneous	**17,307**	13,729
	$1,411,818	$1,184,546
Disposition of Funds		
Capital expenditures —		
Gross capital expenditures	**$1,008,226**	$ 982,992
Deduct: charges not requiring funds	**(33,874)**	(30,051)
Increase (decrease) in material and supplies	**(4,863)**	12,217
Net expenditures	**969,489**	965,158
Extraordinary item (Note 2 ii)	**2,429**	—
Dividends by Bell Canada	**160,263**	133,534
Dividends by subsidiaries to minority shareholders	**14,318**	9,241
Repayment of long term debt	**116,252**	34,657
Acquisition of investments	**8,475**	2,710
Miscellaneous	**5,837**	3,145
Increase in working capital	**134,755**	36,101
	$1,411,818	$1,184,546
The increase in working capital is accounted for by —		
Increase (decrease) in current assets:		
Cash and temporary cash investments	**$ 157,889**	$ (103,661)
Accounts receivable	**69,233**	83,327
Inventories	**(26,554)**	78,605
Other	**4,665**	8,196
(Increase) decrease in current liabilities:		
Bank advances	**187**	9,096
Accounts payable	**(33,788)**	(21,544)
Advance billing for service	**(4,101)**	(3,622)
Dividends payable	**(7,513)**	(3,988)
Taxes accrued	**(19,328)**	(7,855)
Interest accrued	**(5,935)**	(2,453)
Increase in working capital, as above	**$ 134,755**	$ 36,101

Notes to Financial Statements

1. Accounting Policies

System of Accounts

Bell Canada and its telephone subsidiary companies are subject to regulation, including examination of accounting practices, by their respective regulatory authorities. The system of accounts and accounting practices are similar to those being used in the telecommunication industry.

Consolidation

The accounts of all companies in which Bell Canada owns more than 50% of the outstanding common shares have been included in the accompanying consolidated financial statements. These companies are:

	% Ownership of Common Shares
Northern Telecom Limited* (see Note 12)	69.2
Bell-Northern Research Ltd. (51% by Bell Canada and 49% by Northern Telecom Limited)	
The New Brunswick Telephone Company, Limited	50.4
Newfoundland Telephone Company Limited	99.8
Northern Telephone Limited	99.7
Télébec Ltée	100
Lièvre Valley Telephone Company	100
The Capital Telephone Company Limited	100
Telontario Incorporated	100
The North American Telegraph Company	100
Maritime Telegraph and Telephone Company, Limited**	51.7

*At December 31, 1975 Bell Canada was the beneficial owner of 18,311,199 or 69.2% (23,562,500 or 89.9% at December 31, 1974) of the outstanding common shares of Northern Telecom Limited. Assuming exercise of the warrants outstanding at December 31, 1975 the shareholding would be 61.6%. Each warrant entitles the holder to purchase from Bell Canada prior to December 1, 1979 one common share of Northern Telecom Limited at $21.50. At December 31, 1975, 1,998,699 common shares of Northern Telecom Limited were deposited in escrow with the Warrant Trustee for that purpose.

**Maritime Telegraph and Telephone Company, Limited has been included because Bell Canada owns more than 50% of the outstanding common shares. At December 31, 1975, Bell Canada was the registered owner of 2,171,100 common shares; however, under a statute passed by the Legislature of Nova Scotia, not more than 1,000 shares may be voted by any one shareholder.

For companies acquired since 1970, the excess of cost of shares over acquired equity is being amortized to earnings over periods not exceeding forty years. Such amortization amounted to $118,000 in 1975 ($395,000 - 1974).

Telecommunication equipment, purchased by Bell Canada and its telephone subsidiaries from Northern Telecom Limited and its subsidiaries, is reflected in the consolidated balance sheet at cost to the purchasing companies, and in the consolidated income statement is included in Sales revenues — manufacturing and distributing. To the extent that any income on these sales by Northern Telecom Limited has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. All other significant inter-company transactions have been eliminated in the accompanying consolidated financial statements.

Bell Canada's summarized income statement, balance sheet and statement of changes in financial position, on a non-consolidated basis are presented on pages 25 to 27.

Sales revenues — manufacturing and distributing comprise:

(thousands of dollars)	**Year 1975**	Year 1974
Sales to:		
Bell Canada	**$ 451,454**	$461,883
Telephone subsidiaries of Bell Canada	**59,484**	60,814
Sub-total	**510,938**	522,697
Sales to others	**509,777**	449,529
Total Sales	**$1,020,715**	$972,226

Investment tax credit

The investment tax credit is included in the balance sheet as "Deferred Credits-Other" and is being amortized by credits to income, as a reduction of income taxes, over the average estimated service life of telecommunication property.

Income taxes

Bell Canada and all subsidiaries use the tax allocation basis of accounting for income taxes. Reductions in income taxes relating to losses carried forward in subsidiaries are not recorded in the accounts until the date of realization is determined.

Inventories

Inventories held by the manufacturing and distributing subsidiaries are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work-in-process inventories comprises material, labour and manufacturing overhead.

Depreciation

Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets.

When depreciable telecommunication property, other than minor items thereof which are replaced, is retired, the amount at which such property has been carried in Telecommunication Plant is charged to Accumulated Depreciation.

Depreciation expense for the year ended December 31, 1975 was $416,824,000 ($359,199,000 - 1974) and the composite rate was 6.14% (5.97% - 1974).

Maintenance and repairs

The cost of maintenance and repairs of property is expensed as incurred.

Research and development

Research and development expenses are charged to income in the years in which they are incurred.

2. Extraordinary Items

	(thousands of dollars)
i. Gain on a consolidated basis (net proceeds of $118,112,000 after deducting income taxes of $13,759,000) arising from the sale of 5,250,000 common shares of Northern Telecom Limited	$53,007
ii. Provision, after deducting income taxes of $2,100,000 and minority interest of $471,000, for costs of terminating the semiconductor business of a subsidiary of Northern Telecom Limited	(2,429)
	$50,578

3. Earnings per Common Share

Earnings per common share are based on average shares outstanding.

For the computation of the earnings per share, assuming full conversion of convertible preferred shares and exercise of warrants, the dividends on convertible preferred shares have been added back to income.

The assumption has been made that the proceeds from the exercise of warrants were invested to produce an imputed annual return of 11% before applicable income taxes; the amount of imputed income after income taxes was $1,286,000.

4. Inventories

Inventories are classified as follows:

	(thousands of dollars) December 31,	
	1975	1974
Manufacturing and distributing —		
Raw materials	**$ 24,599**	$ 36,678
Work-in-process	**111,216**	130,598
Finished goods	**93,531**	88,624
	$229,346	$255,900

5. Capital Stock

Authorized

By Charter — $1,750,000,000 divided into Common Shares of the par value of $25 each, and into Preferred Shares.

By Shareholders — $1,750,000,000 divided into Common Shares of the par value of $25 each, and: (a) not more than 4,000,000 of a class of Preferred Shares to a maximum aggregate amount of $100,000,000; (b) not more than 9,000,000 of another class of Preferred Shares to a maximum aggregate amount of $225,000,000; and (c) not more than 12,000,000 of another class of Preferred Shares to a maximum aggregate amount of $300,000,000.

Changes in Bell Canada's issued capital stock during 1975 were as follows:

	Outstanding at January 1, 1975	Issued for Cash	Conversion of Preferred Shares	Purchases of Preferred Shares for Cancellation	Outstanding at December 31, 1975
			(dollars in thousands)		
Preferred Shares					
Cumulative, Redeemable, Convertible and Voting					
$3.20 Shares (Par value of $47 per share)					
Number	1,826,645	—	(1,217,046)	—	609,599
Total par value	$ 85,852	—	$ (57,201)	—	$ 28,651
$3.34 Shares, Class B, Series B (Par value of $52 par share)					
Number	1,974,625	—	(1,058,578)	—	916,047
Total par value	$ 102,680	—	$ (55,045)	—	$ 47,635
$4.23 Shares, Class C, Series D (Par value of $47 per share)					
Number	2,000,000	—	(310)	—	1,999,690
Total par value	$ 94,000	—	$ (15)	—	$ 93,985
$2.28 Shares, Class C, Series E (Par value of $25 per share)					
Number	—	5,000,000	—	—	5,000,000
Total par value	—	$ 125,000	—	—	$ 125,000
Cumulative, Redeemable and Voting					
$2.25 Shares, Class B, Series C (Par value of $30 per share)					
Number	1,649,000	—	—	(51,000)	1,598,000
Total par value	$ 49,470	—	—	$ (1,530)	$ 47,940
Total par value of Preferred Shares	$ 332,002	$ 125,000	$ (112,261)	$ (1,530)	$ 343,211
Common Shares (Par value of $25 per share)					
Number	37,338,844	148,228*	2,276,617	—	39,763,689
Total par value	$ 933,471	$ 3,706*	$ 56,915	—	$ 994,092

*Common Shares issued for cash during the year represents purchases made by employees through assignment of dividends under the provisions of the Employees' Savings Plan (1966). The excess of proceeds over par value amounting to $1,541,000 was allocated to Premium on Capital Stock.

The $3.20 Preferred Shares are not redeemable prior to February 1, 1976, but may be redeemed thereafter at $47 plus a premium of $3.00 diminishing by $.50 at the end of each subsequent year to February 1, 1982, and thereafter at $47. Each $3.20 Preferred Share may be converted into one Common Share on or before February 1, 1982. At December 31, 1975, 1,390,401 of these shares had been converted.

The $3.34 Preferred Shares, Class B, Series B, are not redeemable prior to August 1, 1977, but may be redeemed thereafter at $52 plus a premium of $3.00 diminishing by $.50 at the end of each subsequent year to August 1, 1983, and thereafter at $52. The $3.34 Preferred Shares are convertible into Common Shares on or before August 1, 1983. Prior to October 22, 1975 they were convertible on a one for one basis; effective that date, the conversion ratio was changed to 1.012 Common Shares for each Preferred Share. At December 31, 1975, 1,083,953 of these shares had been converted.

The $4.23 Preferred Shares, Class C, Series D, are not redeemable prior to December 1, 1980, but may be redeemed thereafter at $47 plus a premium of $4.00 diminishing by $.70 at the end of each subsequent year to December 1, 1983, by $.60 at December 1, 1984, by $.70 at December 1, 1985, by $.60 at December 1, 1986, and thereafter at $47. Each $4.23 Preferred Share may be converted into one Common Share on or before December 1, 1986.

The $2.28 Preferred Shares, Class C, Series E, are not redeemable prior to July 2, 1981, but may be redeemed thereafter at $25 plus a premium of $2.00 diminishing by $.35 at the end of each subsequent year to July 2, 1986, by $.25 at July 2, 1987, and thereafter at $25. Two $2.28 Preferred Shares may be converted into one Common Share on or before July 2, 1987.

The $2.25 Preferred Shares, Class B, Series C, are not redeemable prior to October 1, 1983, but may be redeemed thereafter at $30 plus a premium of $1.50 diminishing by $.375 at the end of each subsequent five year period to October 1, 2003, and thereafter at $30. Pursuant to the conditions attaching to this issue of shares at December 31, 1975, 102,000 shares with a par value of $3,060,000 had been purchased and cancelled.

Common Shares reserved at December 31, 1975 — 8,727,101:

6,036,328 shares for issuance upon conversion of all convertible preferred shares.

2,625,000 shares for issuance upon the exercise of 2,625,000 warrants issued as part of an offering of units which included common shares of Northern Telecom Limited. The warrants are exercisable at $46 on or before June 30, 1977.

65,773 shares for issuance under the Employees' Savings Plan (1966).

6. Long Term Debt

Bell Canada

First Mortgage Bonds (secured by a first mortgage and a floating charge)

Maturity Date	Rate of Interest	Series	Authorized (thousands of dollars)	Outstanding (thousands of dollars)
January 15, 1976	9 %	AP	$ 20,534 (a)	$ 20,534 (a)
May 1, 1976	3½ %	I	40,000	40,000
March 1, 1977	3 %	E	35,000	35,000
May 1, 1977	8 %	AN	55,000 (b)	54,400 (b)
January 2, 1978	6¼ %	R	35,000	35,000
November 1, 1978	7⅝ %	AK	10,000	10,000
November 15, 1978	7½ %	AU	25,000	25,000
May 15, 1979	3¾ %	K	40,000	40,000
June 3, 1979	9¾ %	BF	45,000	45,000
December 1, 1979	9⅛ %	AR	25,000	25,000
April 1, 1980	8 %	BI	40,000	40,000
July 2, 1980	5¼ %	Q	30,000	30,000
August 1, 1980	8 %	AX	32,000	32,000
April 1, 1981	6 %	AC	13,500	13,500
May 1, 1981	7¾ %	BC	15,000	15,000
June 1, 1981	4 %	M	24,000	24,000
January 2, 1982	5½ %	V	40,000	40,000
August 2, 1982	5¾ %	T	50,000	50,000
March 15, 1983	4¼ %	P	50,000 (c)	50,000 (c)
June 15, 1984	5½ %	W	30,000	30,000
October 1, 1984	5¾ %	Y	30,000	30,000
August 1, 1985-1997	8⅜ %	AZ	26,000 (d)	26,000 (d)
January 2, 1986	6 %	U	35,000	35,000
July 15, 1987	6⅛ %	AE	35,000	35,000
May 1, 1988	4⅞ %	X	50,000 (c)	50,000 (c)
November 1, 1988	6¼ %	AH	50,000	50,000
January 15, 1989	9 %	AP	9,466 (a)	9,466 (a)
October 1, 1989	4.80%	Z	50,000 (c)	50,000 (c)
February 1, 1990	6⅜ %	AG	30,000	30,000
May 1, 1990	8¼ %	AO	— (b)	600 (b)
August 14, 1990	9⅜ %	AQ	50,000	50,000
April 1, 1991	6 %	AD	26,500	26,500
November 1, 1991	7⅝ %	AL	30,000	30,000
March 15, 1992	8 %	AT	65,000	65,000
September 15, 1992	6¾ %	AI	45,000	45,000
April 14, 1993	8 %	AW	50,000	50,000
August 1, 1993	8⅜ %	AY	42,000	42,000
December 1, 1993	9⅜ %	AS	35,000	35,000
April 1, 1994-2003	7⅞ %	BB	40,000 (c,e)	40,000 (c,e)
May 1, 1994	8⅛ %	BD	50,000	50,000
November 15, 1994	8 %	AV	65,000	65,000
December 1, 1994	10½ %	BH	60,000 (f)	60,000 (f)
June 1, 1995-2004	9½ %	BE	130,000 (c,g)	130,000 (c,g)
September 1, 1995	4.85%	AA	50,000 (c)	50,000 (c)
December 1, 1995	4.85%	AB	28,000 (c)	28,000 (c)
June 3, 1996	10 %	BG	70,000	70,000
October 14, 1996	6 %	AF	44,000 (c)	44,000 (c)
February 1, 1997	8 %	BA	50,000	50,000
December 1, 1997	6.60%	AJ	51,000 (c)	51,000 (c)
September 17, 1998	6.90%	AM	75,000 (c)	75,000 (c)
April 1, 1999	9⅞ %	BJ	110,000	110,000
			$2,137,000	2,137,000
Exchange premium less discount, at time of issue, on bonds payable in United States funds				23,926 (h)
Total — Bell Canada				2,160,926

Subsidiaries

Northern Telecom Limited (Consolidated)	73,854
The New Brunswick Telephone Company, Limited (Consolidated)	99,310
Newfoundland Telephone Company Limited	53,751
Northern Telephone Limited (Consolidated)	26,226
Maritime Telegraph and Telephone Company, Limited (Consolidated)	141,114
Other	1,027
Total — Subsidiaries	395,282 (i)
Total — Consolidated	**$2,556,208**

(a) The holder of any Series AP Bond maturing January 15, 1989 had the right to elect prior to July 15, 1975 that Bell Canada shall prepay the principal amount of such Bonds on January 15, 1976 and the holders of $20,534,000 of these Bonds so elected.

(b) Series AN Bonds were exchangeable at the option of the holders on any interest payment date from November 1, 1970 to and including November 1, 1975 for First Mortgage 8¼ % Bonds, Series AO, to mature May 1, 1990.

(c) Payable in United States funds.

(d) Series AZ Bonds mature $2,000,000 per annum on August 1 in each of the years 1985 to 1997 inclusive.

(e) Series BB Bonds mature $4,000,000 U.S. per annum on April 1 in each of the years 1994 to 2003 inclusive.

(f) The holder of any Series BH Bond will have the right to elect, after June 1, 1984 and prior to September 1, 1984, that Bell Canada shall prepay the principal amount of such Bonds on March 1, 1985.

(g) Series BE Bonds mature $13,000,000 U.S. per annum on June 1 in each of the years 1995 to 2004 inclusive.

(h) Based on the exchange rate at December 31, 1975 this premium would be $9,088,000.

(i) Interest rates and maturity dates of long term debt of subsidiaries are as follows:

	(thousands of dollars)					
	Interest Rates					Total Outstanding
Maturity Dates*	3-5⅞ %	6-7⅞ %	8-9⅞ %	10-11 %	Principally at Prime U.S. Bank Rate	
First Mortgage Bonds						
1976	$ 2,000	$ —	$ —	$ —	$ —	$ 2,000
1977	1,214	—	6,000	—	—	7,214
1978	4,840	500	—	—	—	5,340
1979	—	820	—	—	—	820
1980	4,000	1,720	—	—	—	5,720
1981-85	13,250	327	—	—	—	13,577
1986-90	3,000	11,000	2,721	—	—	16,721
1991-95	—	5,500	72,300	23,500	—	101,300
1996	—	—	—	42,500	—	42,500
Debentures and Other						
1976	9,958	—	—	—	88	10,046
1977	2,000	—	—	—	88	2,088
1978	1,455	—	—	—	14,438	15,893
1979	3,000	—	—	—	—	3,000
1981-85	26,665	1,697	4,400	—	—	32,762
1986-90	—	33,094	42,607	2,000	—	77,701
1991-95	—	—	7,100	4,500	—	11,600
1996-97	—	—	22,000	25,000	—	47,000
	$71,382	$54,658	$157,128	$97,500	$14,614	$395,282

*Excludes sinking fund requirements.

At December 31, 1975 the amount of long term debt payable, including sinking fund requirements, by Bell Canada and subsidiary companies in the years 1976 through 1980 is $74,217,000, $102,323,000, $94,774,000, $117,769,000 and $111,569,000 respectively.

7. Notes Payable

Details of notes payable, including specific bank loans, for purposes of interim financing are as follows:

	(dollars in thousands)
i) Amount outstanding at December 31, 1975	$87,194
ii) Maximum amount outstanding at any month-end during the year ended December 31, 1975	$87,194
iii) Average amount outstanding during the year ended December 31, 1975	$64,326
iv) Weighted average annual interest rates during the year ended December 31, 1975	8.62%

8. Remuneration of Directors and Officers

During the year 1975, Bell Canada's shareholders were served by 20 directors. As such, their aggregate remuneration from Bell Canada was $243,000. Certain of them served also as directors of Northern Telecom Limited, a subsidiary company; as such their aggregate remuneration was $46,000 from that company.

Bell Canada had 32 officers during 1975 and their aggregate remuneration as officers was $2,541,000. Two of the officers served also as directors of Bell Canada.

9. Commitments

(a) Material contractual obligations in respect of long term leases, principally covering building space, amounted to $187,663,000 at December 31, 1975. Related rentals incurred for the year 1975 amounted to $9,899,000 and the minimum amount applicable to the next five years is $58,333,000.

Bell Canada has agreed to purchase a mortgage for a sum not to exceed $37,106,000 in the event of mortgage payment default by the owner of a building. In such event the lease commitments of $187,663,000 will be reduced by approximately $73,925,000.

(b) Bell Canada and some of its subsidiary companies have executed agreements with Telesat Canada for the supply to them of certain satellite telecommunication services, the major portion of which terminates in January, 1978. On December 31, 1975, the maximum obligation under these agreements amounted to $25,182,000 subject to reduction in the event that any part of the said services would be unavailable in accordance with the terms of these agreements.

10. Pensions

Bell Canada and most of its subsidiary companies have non-contributory plans which provide for service pensions based on length of service and rates of pay. The actuarial reviews as of December 31, 1973 indicated that all vested benefits were fully funded. The funding programs meet the requirements of the Federal and Provincial laws related to pension funding.

The total provisions for the cost of pension plans were $96,660,000 for the year ended December 31, 1975 ($66,191,000 — 1974).

11. Anti-Inflation Legislation

Bell Canada and its Canadian subsidiary companies are subject to anti-inflation legislation which became effective in Canada on October 14, 1975. Based on available information, managements of Bell Canada and of its Canadian subsidiaries are satisfied that the companies are acting in accordance with this legislation.

12. Subsequent Event

Effective March 1, 1976, the name of Northern Electric Company, Limited was changed to Northern Telecom Limited. This change was ratified by the shareholders of that company at a special general meeting held on February 25, 1976 and subsequently confirmed by Supplementary Letters Patent.

Summarized Income Statement—Non-Consolidated (Note 1)

	(thousands of dollars)	
	Year 1975	Year 1974
Operating Revenues		
Local service	**$ 878,257**	$ 774,474
Long distance service	**753,581**	637,699
Miscellaneous — net	**34,032**	27,950
Total Operating Revenues	**1,665,870**	1,440,123
Operating Expenses	**1,175,693**	1,010,715
Net Operating Revenues	**490,177**	429,408
Other income		
Dividends from subsidiary companies	**25,386**	23,779
Interest charged to construction	**17,231**	14,258
Miscellaneous	**10,723**	6,593
Total Other Income	**53,340**	44,630
Income before Underlisted Items	**543,517**	474,038
Interest charges	**156,218**	127,590
Income before Income Taxes and Extraordinary Item	**387,299**	346,448
Income taxes	**174,243**	161,138
Income before Extraordinary Item	**213,056**	185,310
Extraordinary item*	**92,597**	—
Net Income	**305,653**	185,310
Dividends on preferred shares	**24,845**	17,594
Net Income Applicable to Common Shares	**$ 280,808**	$ 167,716

*Gain, on a non-consolidated basis, net of income taxes of $13,759,000 arising from the sale of 5,250,000 common shares of Northern Telecom Limited, computed by deducting from the net proceeds the average cost to Bell Canada of such shares amounting to $25,515,000.

Earnings per Common Share†		
— before extraordinary item	**$4.83**	$4.52
— extraordinary item	**$2.37**	—
— after extraordinary item	**$7.20**	$4.52
Assuming full conversion of convertible preferred shares and exercise of warrants		
— before extraordinary item	**$4.68**	$4.40
— extraordinary item	**$2.06**	—
— after extraordinary item	**$6.74**	$4.40
†Based on average common shares outstanding (thousands)	**38,998**	37,128
Dividends declared per common share	**$3.44**	$3.12

Summarized Balance Sheet—Non-Consolidated (Note 1)

	(thousands of dollars)	
	December 31 1975	December 31 1974
Assets		
Telecommunication Property — at cost		
Buildings, plant and equipment	**$6,113,945**	$5,418,692
Less: Accumulated depreciation	**1,752,933**	1,568,088
	4,361,012	3,850,604
Land, and plant under construction	**246,594**	302,406
Material and supplies	**72,857**	78,476
	4,680,463	4,231,486
Investments — at cost		
Subsidiary companies	**308,254**	328,817
Other companies	**14,757**	15,002
	323,011	343,819
Current Assets	**405,539**	258,506
Deferred Charges	**26,947**	30,886
Total Assets	**$5,435,960**	$4,864,697
Liabilities and Shareholders' Equity		
Shareholders' Equity		
Capital stock		
Preferred shares	**$ 343,211**	$ 332,002
Common shares	**994,092**	933,471
Premium on capital stock	**441,213**	384,330
Retained earnings	**595,644**	451,738
	2,374,160	2,101,541
Long Term Debt	**2,160,926**	1,983,453
Notes Payable	**29,841**	32,418
Current Liabilities	**282,908**	236,701
Deferred Credits		
Income taxes	**570,328**	491,906
Other	**17,797**	18,678
	588,125	510,584
Total Liabilities and Shareholders' Equity	**$5,435,960**	$4,864,697

Summarized Statement of Changes in Financial Position— Non-Consolidated (Note 1)

	(thousands of dollars) Year 1975	Year 1974
Source of Funds		
Operations —		
Income before extraordinary item	**$ 213,056**	$185,310
Items not affecting current funds		
Depreciation	**338,260**	287,632
Other — net	**68,029**	64,644
Total from operations	**619,345**	537,586
Net proceeds from the sale by Bell Canada of common shares of a subsidiary	**118,112**	—
Proceeds from long term debt	**214,953**	234,057
Proceeds from notes payable (net)	**—**	32,418
Proceeds from preferred shares	**123,336**	91,449
Miscellaneous	**13,544**	26,465
Decrease in working capital	**—**	30,030
	$1,089,290	$952,005
Disposition of Funds		
Capital expenditures —		
Gross capital expenditures	**$ 809,635**	$783,103
Deduct: charges not requiring funds	**(26,639)**	(24,275)
Increase (decrease) in material and supplies	**(5,619)**	7,985
Net expenditures	**777,377**	766,813
Dividends	**160,263**	133,534
Repayment of long term debt	**40,000**	25,000
Repayment of notes payable (net)	**2,577**	—
Acquisition of investments	**6,088**	24,145
Miscellaneous	**2,159**	2,513
Increase in working capital	**100,826**	—
	$1,089,290	$952,005

Auditors' Report

The Shareholders, Bell Canada

We have examined the consolidated balance sheet of Bell Canada and subsidiary companies as at December 31, 1975 and the consolidated statements of income, retained earnings, premium on capital stock, contributed surplus and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company and its subsidiaries as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Chartered Accountants.

Montreal, Que.
February 11, 1976, except for Note 12 which is as of March 1, 1976.

Bell Canada's Board of Directors

In a company as large, diversified and complex as Bell Canada, with consolidated assets in excess of $6,500,000,000, more than 230,000 shareholders, 79,000 employees and approximately 5,000,000 customers, the decisions and actions of the Board of Directors have far-reaching effect.

In establishing the basic objectives and broad policies of the Company, the Directors play the key role in ensuring that the resources of the enterprise are well and competently managed.

Although their primary role is to approve Company policy in the best interest of the shareholders, they also have a direct responsibility to the Company's employees, customers and to the general public, upon whose goodwill the well-being of the enterprise depends.

Success in carrying out these responsibilities depends mainly on the experience and judgment of Board members. Bell Canada gains from the variety of experience and viewpoint which each Director brings from his or her sphere of activity in Canadian life.

The sub-committees of the Board — and each Director serves on one or more — are important adjuncts to the deliberations and decisions of the full Board. Each of the five committees — Executive, Audit, Pension Fund Policy, Social and Environmental Affairs and Management Resources and Compensation — concentrates on a major aspect of corporate activity.

The task requires time, effort and commitment. Truly a working Board, the 19 meetings of the Directors and the 36 regular and special meetings of the various sub-committees of the Board held in 1975 are indicative of the participation and involvement of Bell Canada Directors.

Audit Committee
Audit Committee members are, below, left to right, H. Clifford Hatch and R. C. Scrivener. Bottom of page, left to right, A. Jean de Grandpré, Committee Chairman Marcel Bélanger, E. Neil McKelvey, John H. Moore. A major responsibility of the Audit Committee is to approve accounting policies and all financial statements prior to their submission to the Board. Representatives of the Shareholders' Auditors attend these Committee meetings.

Executive Committee
The seven-member Executive Committee handles much of the ongoing work of the Board, deals with financial planning, reviews all major capital expenditures and examines operations and service performance. Opposite page, Directors, left to right, Gérard Plourde, H. Rocke Robertson, Herbert H. Lank and John H. Moore. Above, A. Jean de Grandpré, President, R. C. Scrivener, Bell Canada's Chairman and Chairman of the Executive Committee and John C. Lobb, Chairman of the Board of Northern Electric.

Pension Fund Policy Committee
Directors advise on policy regarding all aspects of the investments of the Employees' Pension Fund. Far left, are Donald McInnes, Committee Chairman W. M. Vacy Ash, John P. Robarts, J. Douglas Gibson and Lucien G. Rolland. Committee member Louis Rasminsky is shown inset.

Management Resources and Compensation Committee
The depth and abilities of senior management resources and the remuneration of these managers are the special responsibilities of the Management Resources and Compensation Committee. Below, left to right, are Directors Marcel Bélanger, Committee Chairman Herbert H. Lank, G. Allan Burton and James W. Kerr. Absent when the photograph was taken was J. Douglas Gibson.

Social and Environmental Affairs Committee
The Social and Environmental Affairs Committee reviews and recommends policy concerning environmental conditions and developments — social, economic and physical — that may affect the Company. Director members, left to right, are H. Rocke Robertson, Louise B. Vaillancourt, A. Jean de Grandpré and Helen S. Hogg, Chairman of the Committee. Absent from the Committee photo is R. C. Scrivener.

Benefits and Pensions

Bell Canada's Employee Benefit Program is comprehensive; it provides coverage for medical expenses and earnings lost due to sickness or accident absence; a basic retirement income; protection for dependents through death benefits and low cost life insurance; a plan for systematic savings. Together with various government plans, the Company's plans furnish a program of financial security for employees and pensioners. The Company pays the full cost of the program, except as noted.

Payments made by Bell Canada for 1975 include:

Pensions and Annuities	**$ 64,545,000**
— Royal Trust Company is Trustee of the Pension Fund	
— the fund is committed irrevocably to service and deferred pension purposes	
Sickness Benefits	**14,183,000**
— provincial hospital and medical insurance coverage	
— additional hospital and medical services and supplies	
— sickness, on-duty and off-duty accident absence	
— long term disability benefits; disability pensions	
Death Benefits	**3,996,000**
— death benefit, payable to eligible dependent relatives	
— Group Life Insurance: Part 1, cost-shared insurance Part 2, employee-paid term insurance Part 3, cost-shared survivor income benefit	
Employees' Savings Plan	**6,274,000**
— Company contributes $1 for every $3 subscribed by employee (up to 6% of salary) towards purchase of Bell Canada shares, which are purchased on the open market by the Trustee	
Other Payments	**14,185,000**
— Statutory contributions to the Canada and Quebec Pension Plans, Quebec Health Insurance Plan, Workmen's Compensation, Unemployment Insurance	
Total	**$103,183,000**

Statistical Summary

Bell Canada — Consolidated Data	1975	1974	1973	1972	1971
Income Statement Items (thousands of dollars)					
Operating revenues	**$1,967,401**	$1,693,380	$1,487,808	$1,301,058	$1,156,707
Sales revenues — manufacturing and distributing	**1,020,715**	972,226	613,772	535,025	577,401
Income before extraordinary items	**266,784**	224,436	199,975	176,394	151,230
Net income	**317,362**	224,436	205,371	175,486	151,230
Preferred dividends	**24,845**	17,594	14,020	13,079	9,350
Net income applicable to common shares	**292,517**	206,842	191,351	162,407	141,880
Balance Sheet Items (thousands of dollars)					
Total property — net*	**$5,611,987**	$5,050,201	$4,436,356	$4,047,780	$3,721,708
Preferred equity*	**343,211**	332,002	248,988	197,991	197,997
Common equity*	**2,142,810**	1,870,681	1,768,322	1,670,192	1,601,924
Minority interest*	**273,647**	154,358	140,189	109,569	83,434
Long term debt*	**2,556,208**	2,382,436	2,080,231	1,904,001	1,794,857
Capital expenditures	**1,008,226**	982,992	693,461	606,311	554,561
Common Share Data					
Earnings per common share					
— before extraordinary items	**$6.20**	$5.57	$5.04	$4.44	$3.87
— after extraordinary items	**$7.50**	$5.57	$5.18	$4.41	$3.87
Assuming full conversion of convertible preferred shares and exercise of warrants					
— before extraordinary items	**$5.87**	$5.34	$4.86	$4.32	$3.82
— after extraordinary items	**$6.99**	$5.34	$4.99	$4.30	$3.82
Dividends per common share	**$3.44**	$3.12	$2.85	$2.65	$2.65
Equity per common share*	**$53.89**	$50.10	$47.79	$45.30	$43.60
Average common shares outstanding (thousands)	**38,998**	37,128	36,931	36,808	36,680
Per cent of common shares held in Canada*	**97.9**	96.0	96.0	95.9	95.8
Number of shareholders (including preferred)*	**231,689**	230,630	237,458	240,950	245,143

Bell Canada — Non-Consolidated Data	1975	1974	1973	1972	1971
Income Statement Items (thousands of dollars)					
Operating revenues	**$1,665,870**	$1,440,123	$1,275,204	$1,125,416	$1,018,787
Operating expenses	**1,175,693**	1,010,715	875,988	766,414	691,963
Other income	**53,340**	44,630	39,278	32,203	29,786
Interest charges	**156,218**	127,590	113,225	98,701	87,194
Income taxes	**174,243**	161,138	149,759	126,808	122,126
Income before extraordinary items	**213,056**	185,310	175,510	165,696	147,290
Net income	**305,653**	185,310	180,906	164,788	147,290
Per cent return on total capital — before extraordinary items	**8.5**	8.0	7.9	7.8	7.4
Interest in per cent of average debt	**7.2**	6.7	6.4	6.2	5.9
Times interest charges earned — before extraordinary items					
— before income taxes	**3.5**	3.7	3.9	4.0	4.1
— after income taxes	**2.4**	2.5	2.6	2.7	2.7
Balance Sheet Items (thousands of dollars)					
Telecommunication property — net*	**$4,680,463**	$4,231,486	$3,754,816	$3,454,364	$3,176,731
Investments*	**323,011**	343,819	319,674	318,199	309,391
Preferred equity*	**343,211**	332,002	248,988	197,991	197,997
Common equity*	**2,030,949**	1,769,539	1,705,811	1,640,672	1,581,674
Long term debt*	**2,160,926**	1,983,453	1,772,238	1,652,238	1,541,504
Capital expenditures	**809,635**	783,103	554,218	507,716	471,633
Other Statistics					
Telephones in service*	**7,888,581**	7,518,505	7,102,308	6,742,184	6,295,258
Local calls (thousands)	**10,560,102**	10,390,353	9,849,738	9,464,990	8,874,925
Long distance messages (thousands)	**490,627**	448,438	395,851	350,951	304,676
Number of employees*	**44,904**	46,484	43,033	40,953	39,136
Salary and wage payments (thousands of dollars)	**$ 561,232**	$ 487,116	$ 421,841	$ 376,129	$ 333,845

* At December 31

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